ECONOMIC NOTES

If there is one single theme that continues to run through the Fraser government's approach to economic policy, it is that real wages in Australia are too high and profits are too low. Economic recovery and a reduction in unemployment can only come about when the share of output going to wage and salary earners has been sufficiently reduced, the government argues.

As well as consistently pursuing this policy before the Arbitration Commission, the government is also applying it to its own workers and attempting to discipline individual firms which, for the sake of industrial peace, feel it is in their interests to grant more to their own workers than the so-called wage indexation "guidelines" allow. The crusade is to get the profit share back to the value it had in some (ill-defined) golden age.

Is there anything in this position?

Real Wages: Level or Share?

Before looking at the evidence it is necessary to sort out some confusion in the debate about real wages. For a start, there are two ways of looking at wages in real terms. The first is the **level** of real wages; that is, the purchasing power of the wage — or, what is the same thing, the money wage divided by some consumer price index.

Now there is argument about how this measurement should be carried out, but most of it is of a technical nature. Which of the available measures of wages should be used? Which price index most accurately reflects what is really happening to the prices wage earners pay? These are important questions, particularly if there is a redistribution of income going on **within** the group of wage and salary earners at the same time as there is a shift of resources away from this group as a whole towards profit-receivers. However, the main controversy at the moment is about this latter shift.

The **share** of national income going to profits can increase even if the **level** of real wages remains constant — so long as national income itself increases. In an economy expanding at, say five per cent a

Table 1. Gross non-farm product at constant (1974/5) prices, seasonally adjusted, percentage increase on previous quarter.

Quarter	Percentage increase
September 1975	— 1.04
December 1975	— 1.39
March 1976	2.96
June 1976	0.41
September 1976	2.13
December 1976	0.92
March 1977	— 0.45
June 1977	0.58
September 1977	1.28
December 1977	— 0.74
March 1978	2.27
June 1978	— 0.06
September 1978	0.49
December 1978	1.51

year, real wages and real profits must **both** increase by this five per cent gain in productivity if the existing shares of national income are to be maintained. If the **level** of real wages is held constant, **all** this increase in productivity accrues to profits, and so the profit share increases rapidly. Naturally, if the **level** of real wages also falls, the profit share can increase even more rapidly.

A more or less painless way exists, then, for governments to increase the profit share in an expanding economy. Real wages have to be held constant (or at least increase less rapidly than productivity) so that the benefits of greater production go to profit-receivers. This is the effect of an equitably administered system of **full** wage (and tax) indexation.

If, however, the economy is not expanding very rapidly this shift to profits will be slow. A system of full indexation, as envisaged by the Labor government in 1975, would have increased the profit share but too slowly for those who stood to benefit, since the economy was, and has remained, stagnant — as Table 1 illustrates.

In the period covered by Table 1, Gross non-farm product grew at an average annual rate of only about three per cent per year, compared to an average of 5.7 per cent in the previous eight years. To quickly increase the profit share in such circumstances required an actual **reduction** in real wages. Has this been achieved?

The most commonly used measure of wages in Australia is the quarterly Average Weekly Earnings (AWE) series, which is derived by the Australian Bureau of Statistics from payroll tax returns. Despite its limitations (it includes, for example, the earnings of managerial and executive staff, and even directors' fees) it is our best regular and more or less complete report of wage and salary incomes, and is the measure I have used here.

If, for each quarter, we discount the increase in Average Weekly Earnings by the Consumer Price Index we obtain a series of quarterly changes in the **level** of **real** wages, as in Table 2.

We see that in the four years from December 1974 to December 1978 real wages fell about as often as they rose, with the falls,

Table 2. Percentage changes in Average Weekly Earnings, the Consumer Price Index and real wages, December 1974 to December 1978.

Quarter	Percentage change in		
	AWE	CPI	'Real wages'
December 1974	5.3	3.7	1.6
March 1975	2.0	3.6	— 1.6
June 1975	2.8	3.5	— 0.7
September 1975	2.4	0.8	1.6
December 1975	5.3	5.6	— 0.3
March 1976	1.9	3.0	— 1.1
June 1976	4.9	2.5	2.4
September 1976	3.2	2.2	1.0
December 1976	1.5	6.0	— 4.5
March 1977	2.5	2.3	0.2
June 1977	3.1	2.4	0.7
September 1977	3.3	2.0	1.3
December 1977	0.3	2.3	— 2.0
March 1978	3.8	1.3	2.5
June 1978	1.2	2.1	— 0.9
September 1978	2.3	1.9	0.4
December 1978	0.2	2.3	— 2.1

on average, being larger. In December 1974 Average Weekly Earnings stood at $148.00. In the next four years prices went up 53.6 per cent, so to keep up, Average Weekly Earnings would have had to reach $227.37 in December 1978. Instead, Average Weekly Earnings in December 1978 were only $221.00. Real wages then have fallen, on average, $6.37.

In the same period, output per worker has gone up 23.4 per cent, from $453.36 to $559.48 a week. (1) This increase in productivity **plus** the cut in real wages has meant a substantial increase in the profit share and a reduction in the wage share over the period, as Table 3 shows.

In Figure 1 these two measures of the attack on real wages are compared. In the upper part of the diagram, quarter on quarter changes in real wages are shown, while the graph shows labor's resultant share. It is clear that the wage share of national income has been steadily falling over the period depicted, even in those quarters when there was a slight increase in real wages. Of course, big reductions in the level of real wages accelerate this process, as for example

Table 3. Wages, salaries and supplements as a percentage of gross domestic product at factor cost.

Quarter	Labor's share
June 1975	65.05
September 1975	65.09
December 1975	64.83
March 1976	63.80
June 1976	64.09
September 1976	63.15
December 1976	62.53
March 1977	62.75
June 1977	63.25
September 1977	63.17
December 1977	62.85
March 1978	62.57
June 1978	62.40
September 1978	61.30
December 1978	58.16

occurred in the December quarter of 1976, and again in the December quarter of last year.

The Historical Record

So far we have established that real wages have been falling for the last four years — in a period in which there has been, as yet, no sustained economic recovery. But this may be because wages have not fallen far enough — or at least this is what the "real wage overhang" school argue. (2)

There are two ways of dealing with this argument. The first involves re-examining the evidence to see whether there has been a long-term trend for labor's share of the national income to increase past some historical "natural average". The second consists of assessing possible other causes for the dramatic fall in investment Australia has experienced in the recent past.

To start with the evidence, it seems at first sight that there has been an increase in labor's share over the post-war period in Australia. Table 4 uses the same measure of the wage share as Table 3, but this time is based on annual, rather than quarterly, data.

Table 4. Wages, salaries and supplements as a percentage of gross domestic product at factor cost, 1948/9 to 1977/78.

Year	Wage share
48/9	55.8
49/50	53.9
50/51	50.3
51/2	61.1
52/3	57.3
53/4	56.0
54/5	57.8
55/6	58.5
56/7	57.0
57/8	58.3
58/9	56.8
59/60	57.1
60/1	57.8
61/2	58.0
62/3	56.6
63/4	55.4
64/5	56.4
65/6	58.3
66/7	57.6
67/8	58.9
68/9	58.0
69/70	58.9
70/71	61.4
71/2	60.7
72/3	59.5
73/4	60.8
74/5	65.5
75/6	64.6
76/7	63.0
77/8	62.8

However, this historical series is misleading for two reasons, and should be modified. The first, more or less uncontroversial inadequacy of Table 4 is the fact that it overlooks significant changes in the class structure of Australia. While these changes can be overlooked in a short-run analysis, as we did above, if we want to look at a trend over a thirty year period we must take into account the shift that has occurred in Australia from self-employment to wage labor.

To see how such a shift can distort the evidence on labor's share, consider the case of a shopkeeper who is forced to sell his or her business and gets a job, say, in the local supermarket. Even though, we suppose, no other changes occur in the economy, there will be an apparent increase in the wage share of national income and a drop in the profit share. This is because all the income of self-employed people is allocated to profits in the national account statistics we have been using.

In the 1947 Census, self-employed people made up 12.5 per cent of the workforce; in 1971 this percentage had fallen to 7.3. There had also been a drop in the percentage of employers (most of whom are, in fact, small employers, employing only a few workers) from 9.3 to 5.3 per cent of the workforce.

How can we correct our data to take this effect into account? One way is to adjust the whole series in Table 4 by selecting one particular distribution of the workforce into employers, self-employed and employees (I chose the 1971 Census figures) and re-calculating labor's share in other years.

For example, in 1954, 17.9 per cent of the workforce were employers or self-employed, compared to 12.6 in 1971, a drop of 5.3 per cent. To calculate what would have been labor's share in 1954 **if** the class structure in that year had been the same as it was in 1971, we have to adjust the wage share in 1954 by adding part of the income of that 5.3 per cent of the workforce to wages. There is room for argument over what fraction of the income of small employers and the self-employed should be allocated in this way. I have chosen to regard the wage portion of this income as simply equal to the ruling average wage, with all additional income allocated to profits.

This seems reasonable and is equivalent to assuming that our shopkeeper, having been forced out of business, receives the average wage in his or her new job.

Table 5 shows the result of re-calculating labor's share for each year from 1948/9 to 1977/8. Since census data is only available for 1947, 1954, 1966 and 1971, additional assumptions had to be made about trends in the structure of the workforce for other years; I simply assumed a constant trend between censuses and extrapolated the trend between 1966 and 1971 up to the present.

The clear upward trend visible in Table 4 has now all but disappeared, suggesting that it was mainly the effect of changes in the composition of the workforce rather than a consequence of a shift in income from profit receivers to wage earners. Of course, Table 5 does show fluctuations in labor's share. These are a consequence of class struggle within Australia and of external shocks to the Australian economy. While not wishing to ignore these fluctuations and the factors which caused them, it seems that the evidence is that there has been no marked change in the underlying division of national income between workers and capitalists over the post-war period.

Table 5. Wages, salaries and supplements as a percentage of gross domestic product at factor cost, adjusted for changes in workforce composition (Base: 1971), 1948/9 to 1977/8.

Year	Wage share
48/9	60.6
49/50	58.3
50/1	54.2
51/2	65.7
52/3	61.4
53/4	59.8
54/5	61.5
55/6	62.1
56/7	60.3
57/8	61.5
58/9	59.7
59/60	59.8
60/1	60.4
61/2	60.4
62/3	58.7
63/4	57.3
64/5	58.2
65/6	59.9
66/7	59.0
67/8	60.1
68/9	58.9
39/70	59.5
70/1	61.7
71/2	60.7
72/3	59.2
73/4	60.2
74/5	64.5
75/6	63.3
76/7	61.5
77/8	61.0

The Tax Man Cometh

So far, we have been examining Labor's share of the national income without taking into account the redistributive effects of taxation. This is only realistic if wage earners and profit receivers have paid, over the period we are interested in, roughly the same proportion of their incomes in taxes and received roughly the same proportion back in benefits. However, there is a great deal of evidence to suggest that wage earners are paying a much greater share of the tax burden and that governments are intervening more and more in the interests of the corporate sector.

To quantify all these effects — even for a single year — is very complex and to do so over the whole post-war period would be well beyond the scope of these Notes. However, it is worthwhile looking at the most important aggregates and seeing how they have changed to shift resources back to profit receivers.

The main tax paid by wage and salary earners is Pay As You Earn (PAYE) income tax, and it is providing an increasing portion of government income. We should therefore subtract PAYE deductions in order to arrive at a real, after tax figure for labor's share of the national income. At the same time, we should add back those cash benefits workers receive from government, such as pensions, unemployment benefits and the like. This gives a rough measure of the redistributive effects of government taxes and benefits, though I should emphasise it leaves out many other aspects of state intervention in the distribution of income. It is only justified by the fact that the two quantities we are considering — net PAYE contributions of wage and salary earners and cash benefits to persons — tend to dominate the government income and expenditure.

Table 6 shows net PAYE payments, cash benefits to persons and the difference between the two, expressed as a percentage of Gross Domestic Product at factor cost. From 1958/59 (3) to 1964/5 benefits exceeded PAYE deductions but from 1965/6 the working class has received less back in cash benefits than it has paid in income tax.

If this redistributive effect is taken into account, as in Table 7, a picture emerges of the long term evolution of labor's real share of national income. From the evidence there

Table 6. Net PAYE payments, cash benefits to persons and the difference as a percentage of Gross Domestic Product at factor cost, 1958/9 to 1077/8.

Year	Net PAYE ($m)	Cash benefits ($m)	Difference as % of GDP
58/9	472	687	1.936
59/60	546	741	1.579
60/1	643	820	1.348
61/2	653	900	1.823
62/3	683	937	1.743
63/4	790	1029	1.479
64/5	991	1080	0.500
65/6	1160	1156	— 0.022
66/7	1324	1246	— 0.366
67/8	1507	1294	— 0.976
68/9	1727	1397	— 1.346
69/70	2084	1590	— 1.828
70/1	2432	1764	— 2.246
71/2	2888	2048	— 2.529
72/3	3161	2543	— 1.640
73/4	4238	3076	— 2.564
74/5	6071	4320	— 3.245
75/6	7020	6089	— 1.482
76/7	8529	7388	— 1.569
77/8	9639	8279	— 1.703

Table 7. Labor's share of national income, after PAYE tax and cash benefits to persons.

Year	Labour's share (From Table 5)	Tax/benefit effect (From Table 6)	Resulting share
58/9	59.7	1.936	61.6
59/60	59.8	1.579	61.4
60/1	60.4	1.348	61.8
61/2	60.4	1.823	62.2
62/3	58.7	1.743	60.4
63/4	57.3	1.479	58.8
64/5	58.2	0.500	58.7
65/6	59.9	— 0.022	59.9
66/7	59.0	— 0.366	58.6
67/8	60.1	— 0.976	59.1
68/9	58.9	— 1.346	57.6
69/70	59.5	— 1.828	57.7
70/1	61.7	— 2.246	59.5
71/2	60.7	— 2.529	58.2
72/3	59.2	— 1.640	57.6
73/4	60.2	— 2.564	57.6
74/5	64.5	— 3.245	61.3
75/6	63.3	— 1.482	61.8
76/7	61.5	— 1.569	59.9
77/8	61.0	— 1.703	59.3

seems little justification for the claim that the wage share has exceeded some historic benchmark. True, real wages in Australia are higher than in many other countries, but they have always been so.

The wage share has increased in particular periods, particularly in recessions when, typically, output falls faster than employment. The answer in this case is to increase the level of economic activity, not cut real wages — and anyway, the wage share will fall, other things being equal, when economic recovery picks up again.

This seems to leave the "real wage overhang" case hanging — though no doubt it will still be trotted out by employers, government ministers, academics and journalists to justify why other people's incomes should be cut.

1. Calculated, in December 1978 prices, from seasonally adjusted gross non-farm product per civilian employee. Gross non-farm product (in December 1978 prices) went up from $20,925.4 million in the December quarter of 1974 to $23,567.0 million in the December quarter of last year, a 12.6 per cent increase. At the same time, the number of civilian employees in private employment fell from 3,550,500 to 2,240,000, a drop of 8.7 per cent. This means productivity increased 23.4 per cent.
2. See the Treasury's **Round-up of Economic Statistics:** Special Supplement, "The Measurement of Real Unit Labour Costs", September 1978, the **Australian Bulletin of Labour,** March 1979, or the **National Times'** P.P. McGuiness almost any week this year.
3. Before 1958/9 income tax receipts are not given separately for wage and salary earners.

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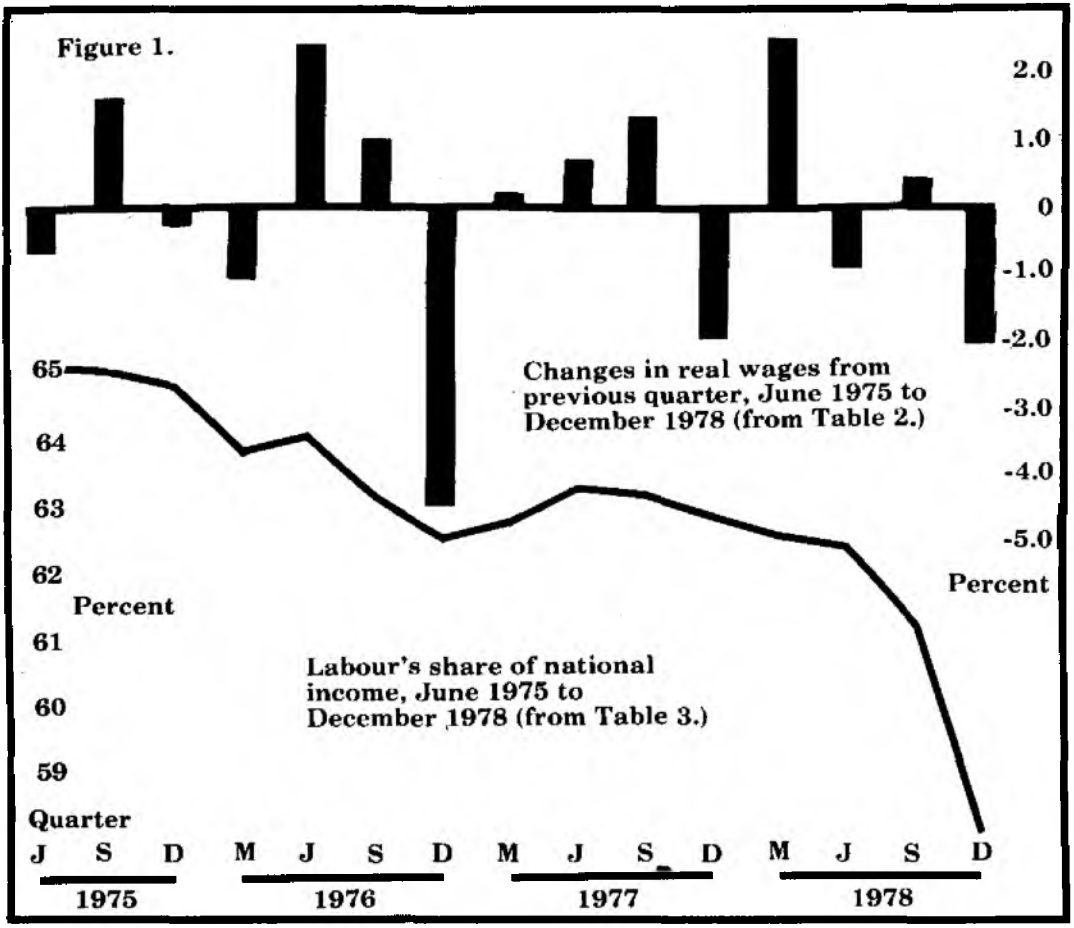

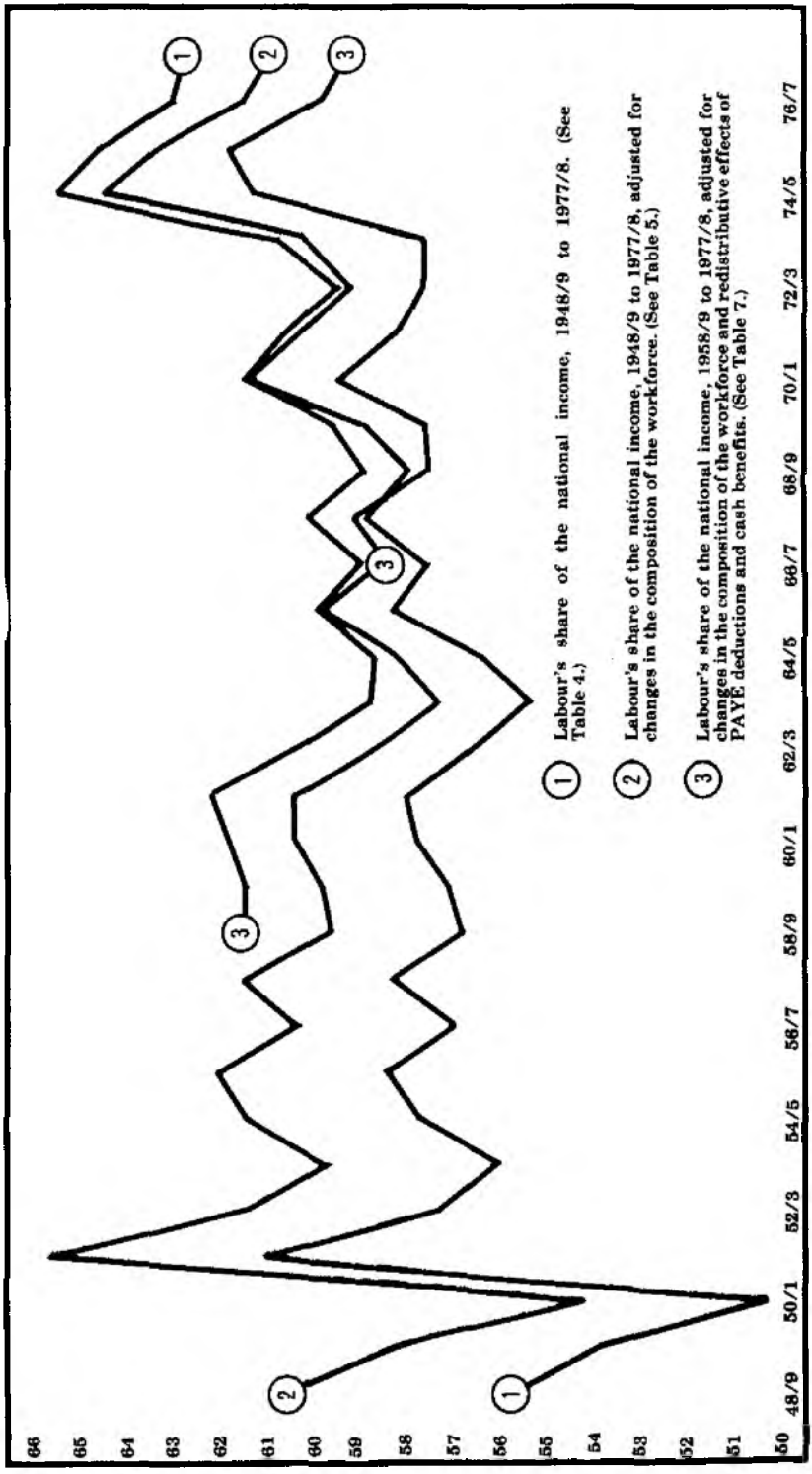
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1 Labour's share of the national income, 1948/9 to 1977/8. (See Table 4.)
2 Labour's share of the national income, 1948/9 to 1977/8, adjusted for changes in the composition of the workforce. (See Table 5.)
3 Labour's share of the national income, 1958/9 to 1977/8, adjusted for changes in the composition of the workforce and redistributive effects of PAYE deductions and cash benefits. (See Table 7.)